CUB RESPONSE TO REQUEST FOR FEEDBACK ON LOW-INCOME DISCOUNT RATES FOR ELECTRIC AND NATURAL GAS RESIDENTIAL CUSTOMERS

The Citizens Utility Board (CUB) is grateful for the opportunity to respond to the Illinois Commerce Commission's (ICC) June 24, 2022 Request for Feedback on Low Income Discount Rates for Electric and Gas Residential Customers. As a utility consumer advocate, CUB operates on the front lines of energy affordability issues, and the Climate and Equitable Jobs Act (CEJA)'s focus on equity and affordability is a main reason we supported it. We look forward to the occasion presented by the CEJA-mandated low income discount rate study to examine the needs of low-income utility customers, review learnings from other jurisdictions, and find solutions that can benefit all consumers.

Background and Need

The adverse effects of energy vulnerability have been well-documented. Programs that make utility bills more affordable can help people avoid unsafe living conditions that can result from disconnections, alleviate the stress of not being able to pay their bills, and even attain greater economic mobility as they have more money freed up for other expenses and investments.[1]

It is also in the utilities' and consumers' best interests when customers can keep their service on and continue to make payments toward their bills. Illinois utilities have bad-debt riders, meaning that a utility's "uncollectibles" are socialized across all customers. In other words, when a customer falls behind on his/her bills to the point of disconnection and account termination, that

[1] For a review of the literature on the effects of energy poverty, see: Jessel S, Sawyer S and Hernández D (2019) **Energy, Poverty, and Health in Climate Change: A Comprehensive Review of an Emerging Literature**. Front. Public Health 7:357. doi: 10.3389/fpubh.2019.00357

bad debt is ultimately covered by the remaining, paying customers. So the more bad debt there is, the more customers pay.

The analysis of what, if any, discount rate would be appropriate and most beneficial begins with an examination of what programs currently exist, the efficacy of those programs, and how any new rate would intersect with existing programs.

<u>The Illinois Percentage of Income Payment Program (PIPP)</u>

Illinois already has what is considered by many to be the "gold standard" of utility assistance programs: the Percentage of Income Payment Plan, or "PIPP" created by the passage of Senate Bill 1918 in 2009. Under the traditional Low Income Home Energy Assistance Program (LIHEAP), participants receive assistance in the form of an annual lump sum paid directly to the utility. This model, while better than nothing, serves to perpetuate an at best disruptive and at worst dangerous "disconnect-reconnect" cycle for struggling utility consumers.

Participants in the PIPP, on the other hand, are entered into levelized, budget billing and then required to pay just 6% of their income toward their gas and electric bills combined. Designed so that assistance levels match customers' needs, and characterized by year-round utility affordability and predictability for customers, the PIPP is in many ways a model energy assistance program and strong arguments can be made for simply expanding and improving it.

Senate Bill 265, passed in 2021, made improvements such as increasing PIPP funding and expanding eligibility to all low-income Illinois residents regardless of immigration status, but even with these improvements, the PIPP will not do enough to ease energy burdens for all Illinoisans that struggle to pay their utility bills. Despite the 2021 law, PIPP funding remains meager and the program as it exists could be improved from both customer and administrative standpoints.

The PIPP application process itself can be onerous for both the applicant and for the intake organizations (also known as Local Administering Agencies or LAAs). LAA staff are required to present both the PIPP and traditional LIHEAP options to customers who come in for energy assistance, but because of time constraints, the relative complexity of the PIPP and PIPP customer responsibilities that can sound intimidating (customers are summarily kicked off the program if they miss just one payment and cannot get back on the PIPP or regular LIHEAP until the next program year), when compared to traditional LIHEAP, enrollment in the PIPP can be challenging.

CUB encourages the Commission to use this study to investigate ways to expand and improve the existing PIPP so that participation can be easier and open to more Illinoisans. One significant barrier to the existing PIPP program is simply the budget limitations. And, in fact, CUB just became aware that, because of high energy price increases already affecting customers' bills and requiring more State funds than originally projected, the Office of Community Assistance (OCA) will not be accepting any new PIPP applications for the 2022-2023 program year (September 1, 2022 – May 31st, 2023), further constraining the reach of this program and putting more low income customers at risk of disconnection.

We see this process as an opportunity for regulators, stakeholders, and utilities to take a hard, honest look at the goals and best practices for energy assistance programs without self-circumscription. While some changes, like expansion of the PIPP funding cap, require legislative action, all avenues to increase the benefits of PIPP or other similar programs should be considered.

<u>Engaging Entities Active in Low-Income Assistance Programs</u>

This investigation represents the first step in a process to build a well-designed program based on local stakeholder feedback and an analysis of best practices in other jurisdictions. CUB looks forward to learning from the input provided by other parties and urges the Commission to ensure that entities administering low-income assistance and discount rate programs in Illinois and other states are asked to weigh in.

Specifically, we are eager to learn from the Illinois Department of Commerce & Economic Opportunity (DCEO), the Illinois Association of Community Action Agencies (IACAA) and representatives from the Community Action Agencies themselves in order to get the best information about current utility assistance programs and how they can be improved and complemented.

Data Needs

Meanwhile, more hard data will be needed in order to best assess the needs of lower-income Illinoisans and design an effective program to provide financial relief.

The stipulated COVID-19 consumer relief agreements signed in March 2021 required Illinois' main investor-owned utilities to report on credit and collections activities and the Climate and Equitable Jobs Act (CEJA) codified that requirement. The utilities now file detailed reports each month under 220 ILCS 5/8-201.10 (b). The data contained in these reports will certainly help utilities, regulators, and stakeholders gain a better understanding of a portion of the utility affordability problem, but more information is still needed. Not everybody who is struggling to pay their bills ends up paying late or getting disconnected. Many people struggle, but ultimately succeed in paying their bills, but this can happen to the detriment of other needs like food or medication. People with significant energy burdens may not necessarily pay late or get disconnected, but can still find themselves less able to take part in other economic activities and otherwise suffer as a result of their relatively high utility costs.

In order to better understand typical usage patterns amongst lower-income Illinoisans and design solutions that benefit target populations, the Commission should at a minimum require the gas and electric utilities to provide frequency distribution tables showing at least one year's worth of total monthly bill and monthly volumetric usage amounts by ZIP + 4 and participation in LIHEAP or PIPP. The ZIP + 4 data will be particularly important because not all customers who are eligible for LIHEAP or PIPP actually participate in these programs. Using census tract data, stakeholders and Commission staff will be able to gain insight into which areas house the most customers in need.

CUB recommends that the Commission also seek information from the Illinois Department of Human Services (IDHS) and/or other agencies on the number of households receiving Supplemental Nutrition Assistance Program (SNAP) and other assistance programs by ZIP+4.

This information will be essential for predicting program costs in the event it is decided to enroll public assistance program participants in utility assistance programs automatically.

We are also very interested in learning more about how increased assistance programs might reduce uncollectibles. We encourage the Commission to seek any available analyses from other jurisdictions and, for Illinois, to look at how the increased assistance made available in response to the COVID-19 crisis impacted uncollectibles amounts, compared to pre-pandemic times. The Commission should also review and consider how the increased PIPP funding in CEJA may expand those benefits to more consumers.

Eligibility

Currently, a household's combined gross income for the 30 days prior to application must be at or below 200% of the federal poverty level in order to qualify for LIHEAP/PIPP. We believe that this study should include an analysis of the costs and benefits of providing assistance to people with incomes higher than the LIHEAP cutoff.

Verification Mechanisms

There are a number of possible mechanisms for verifying customer eligibility, each with their own set of advantages and disadvantages. Currently, customers in Illinois apply for LIHEAP or PIPP at their local community action agency and must submit documentation of income for the previous 30 days. During the height of the COVID-19 crisis, customers were able to access Bill Payment Assistance through "self-certification," where the customer attests that he or she meets a program's eligibility requirements without needing to provide documentation in order to be approved.

Self-certification and automatic enrollment can decrease barriers to participation and are thus worth investigating as long-term verification methods. In California, customers self-certify that they are eligible for the Family Electric Rate Assistance (FERA) and California Alternate Rates for Energy (CARE) via applications submitted directly to their utilities, and audits show minimal instances of fraudulent self-certification. In some states, clients' utility account numbers are collected in applications for non-utility-related assistance programs and then used to enroll these customers in utility discounts automatically. In Illinois, a data-sharing process between the State and the Utilities can be created whereby customers who receive certain forms of assistance such as SNAP, WIC, or SSI can be automatically enrolled in utility bill assistance.

Rate Structures

CUB's own research has shown the inequitable cross-subsidization intrinsic to common electric rate designs.[2] In general we support a deeper examination of utility rate design and how it can be improved to serve residential customers more fairly in the long-term.

Discount rates around the country take different forms. California CARES uses a straight percentage discount off of gas and electric bills. The drawback to this approach is that higher use customers get a bigger benefit, which does not align with energy efficiency and climate goals and also could result in higher income customers receiving more than lower income customers (assuming, as some data confirms, that higher use customers are generally higher income). Other states like New Hampshire offer tiered discount rates that distribute benefits more equitably because the benefit decreases as income increases, therefore aligning more closely with the level of energy burden. More data is needed to determine which, if any, of this type of discount rate would fill the gaps left by other existing programs and appropriately serve the needs of low income customers.

Other rate structures like real time pricing should also be examined as a potential rate mitigation tool for low income rate design. ComEd and Ameren Illinois, the two largest electric utility companies in our state, already offer real-time pricing (branded by ComEd as "Hourly Pricing" and by Ameren as "Power Smart Pricing") to all of their residential customers and CUB believes a majority of low-income households can benefit financially by enrolling. We have found, however, that the perceived risk of these programs can be a barrier to enrollment, and indeed we

[2] J. Zethmayr, R.S. Makhija **Six unique load shapes: A segmentation analysis of Illinois residential electricity consumers** Electricity J, 32 (9) (2019), p. 106643, 10.1016/j.tej.2019.106643

would not want any customer to take part in the program if it ends up losing them money. We therefore encourage the Commission in this process to examine potential demand-response rates for low-income customers. Such rates could incorporate a more predictable Time-of-Use (TOU) structure and/or include a savings guarantee but with higher savings granted to customers who use less energy at peak times.

Energy Assistance and Building Electrification

We also encourage the Commission and stakeholders to consider how low-income energy assistance program design can spur the equitable decarbonization of buildings. In Chicago, soaring natural gas costs have created an untenable situation for a large segment of the city's population, with low-income and environmental justice neighborhoods being the hardest hit. As pressure from this affordability crisis builds and combines with concerns about indoor air quality and climate change, we expect to see more consumers convert to electric heat.

CUB research shows that electric heat is already cheaper than gas in cases of new construction or where a home's furnace and central air conditioning are at end-of-life.[3] Even in cases where a home converts to electric heat before the appliances are at end-of-life, we found payback periods to be surprisingly short. For low-income households, however, the existence of any upfront costs at all present a significant barrier to conversion, so programs designed to offset these upfront costs for eligible consumers will be necessary in order to safeguard against the possibility of a utility "death spiral," where those who can afford to do so electrify their homes and exit Peoples Gas' rate base, leaving lower-income customers shouldering the costs of maintaining the system.

We believe special electric space heating rates for low-income customers, working in tandem with programs aimed at reducing or eliminating the upfront costs of electrification, can be a powerful tool towards achieving equitable building decarbonization.

[3] See CUB's study, "Better Heat: The Economics of Residential Building Electrification in the City of Chicago" at https://www.citizensutilityboard.org/wp-content/uploads/2021/03/PGLAnalysis_Final.pdf

Usage Caps

Lower-income consumers often live in less efficient homes and in many cases, especially if renting, may not have the ability to rectify this. We therefore do not support usage caps for programs like the PIPP and discount rates. We understand however that program budgets go further when usage is efficient, so believe it is worth looking at ways a low income discount rate can intersect with available efficiency and weatherization programs. In California, for example, discount rate recipients with extremely high usage can be required to enroll in an energy efficiency assessment program. Stringent requirements of this sort may or may not be appropriate in Illinois, but we hope this study includes an analysis of the pros and cons of such designs.

Cost Recovery Mechanisms

CUB believes that all customer classes should cover the costs of policies that are in the public interest, keep utility bills affordable for all customers, and keep customers connected to essential utility service, all while reducing uncollectibles.

Customer Impacts

The 6% of income goal of the PIPP is a good one but we acknowledge that the considerable expense required to achieve that for all customers will be a barrier.

As stated above, CUB believes that financial assistance for low-income utility customers can have real benefits for the overall economy and for all customers in the form of reduced uncollectibles, but these effects require further study.

Conclusion

CUB applauds the ICC on its commitment to energy affordability in an increasingly complex energy environment. We appreciate the thoughtful questions put forth in the June request for stakeholder feedback and look forward to a robust discussion that also takes into account events happening outside of this setting, but which can have a large impact on utility costs. The bipartisan Infrastructure Investment and Jobs Act and the Inflation Reduction Act contain provisions that can benefit low income utility consumers greatly, and we urge the ICC in this study to encourage utilities and stakeholders to seek ways to maximize these benefits.

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